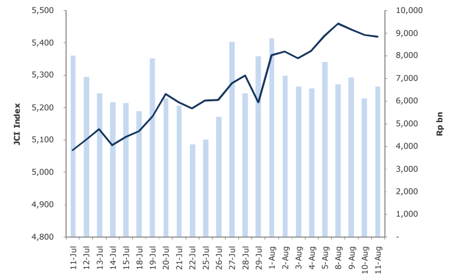
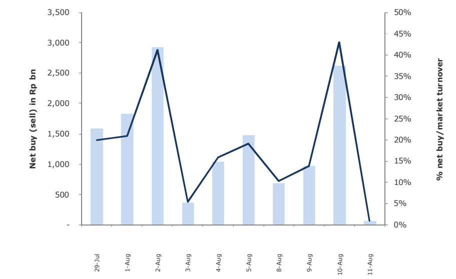
Premier Insight

12 August 2016

JCI Index



Foreign net buy (sell)



Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	5,419	-0.1%	21.0%	18.0%
LQ45	929	-0.2%	23.5%	17.3%
DJI	18,614	0.6%	7.0%	6.8%
SET	1,553	0.3%	10.2%	20.5%
HSI	22,581	0.4%	-5.6%	3.0%
NKY	16,735	-0.2%	-19.2%	-11.4%
FTSE	6,915	0.7%	5.2%	10.8%
FSSTI	2,870	-0.2%	-6.3%	-0.4%
EIDO	27	0.6%	31.8%	28.1%

Commodity price

Commodities	Last price	Ret 1 day	Ret 1 year
(in USD)			
Oil/barrel (WTI)	43.5	4.3%	1.0%
CPO/tonne	620.0	-0.6%	10.0%
Soy/bushel	10.0	0.2%	-1.8%
Rubber/kg	1.7	0.5%	7.1%
Nickel/tonne	10,691	-1.2%	-0.2%
Tins/tonne	18,335	-1.1%	19.7%
Copper/tonne	4,840	0.5%	-5.3%
Gold/try.oz (Spot)	1,339	-0.6%	19.1%
Coal/tonne	67.9	2.3%	13.4%
Corn/bushel	3.1	-0.5%	-18.2%
Wheat/bushel*	156.7	-0.6%	-21.6%

** : 1 month change*

Source : Bloomberg

Express Transindo Utama (TAXI IJ; Sell)

Losing market share, earnings fall

- **Market share erosion due to app-based operators to continue**
- **Competitors' subsidized fares hurt conventional cabs' ridership levels**
- **Possible headwinds from regulatory change**
- **Downgrade to Sell with new TP of Rp130 (from Rp250)**

Competition from transportation mobile apps business intensifies. GoJek (an Indonesia-based transportation mobile apps) has just secured another round of funding of US$550mn (c.Rp7.4tn) from private equity firms KKR & Co. and Warburg Pincus LLC, to help step up to face competition from Uber and Grab in Indonesia. Likewise, Grab Indonesia has set the agenda to form a strategic partnership with Matahari Mall (Lippo Group's e-commerce) and brought Venturra Capital into Grab's stake (Grab has raised a total of US$700mn). We expect the hefty funding to be spent on continuing its subsidized pricing strategy and delivering aggressive technological innovation, which ultimately deteriorates the conventional taxi's market share.

Aggressive price war hurts TAXI ridership level. Our channel checks reveal that current regular ridership level has dropped below 60% (from 69% previously) due to cheaper fares offered by Uber, Grab, and GoJek. Faced by the unfair price below the regulated tariff, we expect TAXI's revenue to fall 21% yoy to Rp763bn in 2016 (from Rp970bn in 2015). The regular taxi segment shows revenue figures dropped by -35% yoy and -24% qoq for 2Q16, with the most affected area being Greater Jakarta (-38% yoy, -23% qoq).Thus, we expect gross margin to fall to 27% in FY16F (vs 34% in 2015) for a sustained period.

Change in regulations may pose threat. We think the recent cabinet reshuffle may pose higher risk of bringing another government intervention in the sector, such as revising the latest transportation regulation No.32/2016 and/or issuing other rulings in the sector. Thus, we expect further regulatory dynamics to affect the whole industry and possibly bring volatility to the market. Also, the lack of control in enforcing the regulation could jeopardize the underlying regulation. To recall, the announced Cabinet reshuffle has announced Mr. Budi Karya Sumadias the new Transportation Minister, replacing Mr. Ignasius Jonan as at 27 July 2016.

Cut earnings and downgrade to Sell. We lower our FY16/17F bottom line, on the back of declining sales, as we apply lower regular taxi ridership levels of 60%/63% (from 69%) for FY16/17F. We believe the current share price recovery (+88% YTD vs JCI Index +20% YTD) is not justified, given the weak fundamentals and tight competition from industry. We downgrade our recommendation to Sell (from Hold) and cut our FY16F DCF-based TP to Rp130 (from Rp250).

Year To 31 Dec	2014 A	2015A	2016F	2017F	2018F
Revenue (RpBn)	890	970	763	823	879
EBITDA (RpBn)	522	514	407	427	455
EBITDA Growth (%)	27.7	-1.5	-20.9	5.0	6.6
Net Profit (RpBn)	119	32	-36	9.0	6.0
EPS (Rp)	55.0	15.0	-17.0	4.0	3.0
EPS Growth (%)	-10.4	-72.8	-210.3	-124.4	-29.4
Net Gearing (%)	172.7	162.5	154.2	134.5	119.2
PER (x)	3.6	13.2	n/m	49	69.5
PBV (x)	0.5	0.5	0.5	0.5	0.5
Dividend Yield (%)	6.1	0	0	0	0
EV/EBITDA (x)	3.6	3.6	4.3	3.7	3.2

Source : TAXI, IndoPremier *Share Price Closing as of : 11-August-2016*

News & Analysis

Corporates

AISA: Tiga Pilar Sejahtera (AISA IJ; Rp1,910; Not Rated) reported earnings of Rp133.3bn in 2Q16 (+85.1%yoy), ahead of our forecast, on the back of 22.7% yoy revenue growth. The gross profit grew 55.8% yoy to Rp473bn in 2Q16, while operating profit stood at Rp295bn (+75.2% yoy) in 2Q16. We suspect the gross margin expansion of 530bps yoy is attributable to higher contribution of its branded rice products. Meanwhile, net margin improves 240bps in 2Q16 after the divestment of the palm oil business. (Company, Investor Daily)

(in Rp bn)	2Q16	2Q15	YoY	2Q16	1Q16	QoQ
Revenue	1,909	1,556	22.7%	1,909	1,661	14.9%
Gross Profit	473.4	304	55.8%	473	406	16.7%
Operating Profit	295	168	75.2%	295	267	10.4%
Net Profit	133	72	85.1%	133	123	8.6%
	2Q16	**2Q15**		**2Q16**	**1Q16**	
Gross Margin (%)	24.8%	19.5%		24.8%	24.4%	
Operating Margin (%)	15.5%	10.8%		15.5%	16.1%	
Net Margin (%)	7.0%	4.6%		7.0%	7.4%	

Source: IndoPremier

Comment: We see the company's unprofitable palm oil business has no longer become a drag on its earnings. We also expect the gross margin improvement to continue as the company will continue to shift its sales mix in rice division towards branded rice. In regards to government's plan on replacing rice subsidy to food coupon will benefit AISA, especially on AISA's unbranded rice products in terms of sales volume. Therefore, maintain BUY at TP Rp2,100, which implies FY17F P/E of 11.5x.

FAST: PT Fast Food Indonesia (FAST IJ; Rp1,310; Not Rated), operator of fast food chain KFC, plans to open 11 new stores in 2H16 to achieve its 11% annual revenue growth target on the back of 30 new store openings this year. As chicken supplies accounts for 38% of revenue, company plans to be more selective in its cost of goods sold in order to expand margins. As of 1H16, FAST opened 19 new stores and revenue achieved Rp43.19bn (+55.75% yoy). (Company, Kontan)

LPKR: Lippo Karawaci (LPKR IJ; Rp1,165; Hold) booked marketing sales of Rp602bn until June 2016 or 12% from total target FY16. Most of sales are supported by townships of which Lippo Cikarang remains the biggest contributor of Rp293bn. Meanwhile, orange country only recorded Rp8bn of pre sales, fell short behind its target of Rp411bn. (Company)

Comment: company expects sales to REITS of Rp1.7tn this year. If we exclude REITS sales, LPKR pre-sales only achieved 17% of company's guidance. We reiterate Hold on LPKR on the back of weak achievement which would likely to effect earnings performance in 2016-2017.

LSIP: London Sumatera (LSIP; Rp1,495; Buy) booked 2Q15 net profit of Rp62bn, up 23% qoq but down 60% yoy. 1H16 net profit of Rp113bn, down 63.5% yoy, forming only 15% of our FY estimate and 17% of consensus' expectation, caused by lower than expected top-line which down 21% yoy in 1H16, and lower forex gain on operational activities. (Bisnis Indonesia)

Comment: We will downgrade our earnings estimate given these weaker than expected results.

SIMP: Salim Ivomas Pratama (SIMP IJ; Rp510; Not Rated) posted 2Q15 net profit of Rp105bn, up 54% qoq and 31% yoy. 1H16 net profit up 36% yoy to Rp172bn, formed 35% of our and consensus FY16 estimates. (IDX)

Comment: We will review our forecasts given these slightly weaker than expected results while maintaining our Hold rating on the counter.

SILO: Siloam Internationals (SILO IJ; Rp9,875; Buy) has succeeded opening 3 hospitals this year (Labuan Bajo, Bau- Bau and Samarinda) and is expecting Siloam Jogjakarta to be fully operational in 3Q16. Company still has seven sites on the pipeline that are expected to be open in 2016 and another eight sites in 2017. Total inpatient (IPD) and outpatient (OPD) admission grew 21% yoy in 1H16, triggered by OPD growth of 21% yoy. Note that company has not released its 1H16 result due to limited review.

Comment: we see SILO's execution on new hospitals appears to be getting better as company managed to open 3 hospitals this year. As such, our target of four hospitals should be achievable this year. We maintain our Buy call on SILO at TP of Rp11,900/share, implying 21% upside potential from current price.

SMRA: Summarecon Agung (SMRA IJ; Rp1,925; Sell) will launch commercial shop called the springlake in Bekasi. There are 72 unit and ASP will be below Rp1bn/unit. Until 7M16, company has recorded marketing sales of Rp1.9tn or 42% of company's target FY16. 59% of sales were still dominated by Serpong followed by Kerawang (15%), Bandung (14%), Bekasi (8%), Kelapa Gading (4%). (Kontan)

Markets & Sector

Automotive sector: The Government is looking to increase 4W export up to 10% of total production capacity of 2.0mn units or 200,000 units per year. Currently 4W export has reached 94k units in 1H16 (-12.8% yoy). The Government will need to win support from auto principle to appoint Indonesia as a production base. To increase export in the region, Indonesia will need to adapt EURO 4 standards. This will have consequences for Pertamina to provide higher quality fuel. (Bisnis Indonesia)

	1H15	1H16	Change
CBU (units)	107,831	93,998	-12.8%
CKD (sets)	50,488	91,194	80.6%
Components (pieces)	2,412,028	3,110,146	28.9%
Import CBU	42,376	40,197	-5.1%

Source:IndoPremier

Comment: We think Indonesia has good potential for export, but the decision will come from the principle holder. Therefore, the Government will have to ensure and provide incentive to influence the decision making process at the principle level. Benefit to Astra International (ASII IJ, Rp Hold) should be limited as it holds only 5% in Toyota Manufacturing Motor Indonesia and 31% in Astra Daihatsu Motor, both are involve in the production of MPVs, dan sub compact sedan in Indonesia.

Pharma sector: Indonesia pharmaceutical companies, such as Kalbe Farma and Kimia Farma are actively looking for foreign partnership. KLBF's corporate secretary, Vidjongtius, indicates that the company is currently negotiating with companies from South Korea, Japan, India, and China. This strategy is expected to deepen market penetration going forward. The company is interested in expanding its medical devices and nutritional divisions. Meanwhile, KAEF prefers to focus on the raw material itself (Active Pharmaceutical Ingredients (API)). The company is planning to lessen the raw material import dependency by 5% in the next 5 years. (Bisnis Indonesia)

Comment: We see the company's initiative to find strategic partners to further benefit Indonesia pharmaceutical industry, especially on KAEF's plan to lessen the import dependency by partnering with foreign company to manufacture the raw materials locally.

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INVESTMENT RATINGS

BUY	: Expected total return of 10% or more within a 12-month period
HOLD	: Expected total return between -10% and 10% within a 12-month period
SELL	: Expected total return of -10% or worse within a 12-month period

ANALYSTS CERTIFICATION.

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